

Treasury Management Update 2023-24 – Period 4

1. Report Background

- 1.1 The report sets out the treasury management activity covering the following topics:
- Economic update
 - Interest rate forecast
 - Update on treasury activity covering:
 - Treasury portfolio
 - Borrowing & Investments
 - Treasury Management budget performance
 - Compliance update on TMSS approved, prudential and treasury limits

2. Introduction

Capital Strategy

- 2.1 In December 2021, the Chartered Institute of Public Finance and Accountancy (CIPFA), issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is to provide the following:
- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
 - an overview of how the associated risk is managed.
 - the implications for future financial sustainability.

Treasury management

- 2.2 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 2.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 2.4 Accordingly, treasury management is defined as: "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market

transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

2.5 The CIPFA Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (annual, mid-year or quarterly reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code and it covers:

- An economic update to the period to July 2023 updated to reflect the most recent developments in the economy.
- The Council’s capital expenditure, as set out in the Capital Strategy, and prudential indicators.
- A review of the Council’s investment portfolio for 2023-24.
- A review of the Council’s borrowing strategy for 2023-24.
- An update of any debt rescheduling undertaken during this reporting period.
- A review of compliance with Treasury and Prudential Limits for 2023-24

3. Economics summary update

3.1 This period to July of 2023-24 saw:

- A 0.2% month on month (m/m) rise in GDP till May, with an increase of 0.5% in June.
- Core CPI inflation fall to 6.8% by the end of July.
- A tighter labour market in April, as the 3myy growth of average earnings rose from 6.1% to 6.5%.
- Interest rates rise by a further 75bps over the quarter, taking Bank Rate from 4.25% to 5.00% in June where it remained for July.
- 10-year gilt yields nearing the “mini-Budget” peaks, as inflation surprised to the upside.

MPC Meetings

3.2 On 11th May, the Bank of England’s Monetary Policy Committee (MPC) increased Bank Rate by twenty-five basis points to 4.50%, and on 22nd June moved rates up a further 50 basis points to 5.00%. Both increases reflected a split vote – seven members voting for an increase and two for none.

3.3 Nonetheless, with UK inflation significantly higher than in other G7 countries, the MPC will have a challenging task in convincing investors that they will be able to dampen inflation pressures anytime soon. Talk of the Bank’s inflation models being “broken” is another reason why gilt investors are demanding a premium relative to US and Euro-zone bonds, for example.

4. Interest rate forecasts

- 4.1 The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates.
- 4.2 The last forecast for this period made on 26th June, sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, against a backdrop of a stubbornly robust economy and a tight labour market.
- 4.3 Note that Link's forecasts have steadily increased during the quarter as the data continued to spring upside surprises, and the Bank of England continued to under-estimate how prevalent inflation is, and how tight the labour market is. The Government has also noted that despite immigration increasing markedly, high levels of ill-health amongst the workforce has led to wage demands remaining strong until such time as there is a loosening in demand for business services
- 4.4 Link Group's current (at 26 June) and previous PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View		26.06.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

Link Group Interest Rate View		24.05.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	4.75	5.00	5.00	4.75	4.50	4.00	3.50	3.25	2.75	2.50	2.50	2.50	2.50
3 month ave earnings	4.80	5.00	5.00	4.80	4.50	4.00	3.50	3.30	2.80	2.50	2.50	2.50	2.50
6 month ave earnings	5.10	5.20	5.10	4.90	4.50	3.90	3.40	3.20	2.90	2.60	2.60	2.60	2.60
12 month ave earnings	5.40	5.40	5.30	5.00	4.50	3.90	3.40	3.20	2.90	2.70	2.70	2.70	2.70
5 yr PWLB	5.00	5.00	5.00	4.80	4.50	4.10	3.70	3.50	3.30	3.20	3.20	3.10	3.10
10 yr PWLB	5.00	5.00	5.00	4.80	4.40	4.10	3.80	3.60	3.50	3.40	3.30	3.30	3.30
25 yr PWLB	5.30	5.30	5.20	5.10	4.80	4.50	4.20	4.00	3.80	3.70	3.60	3.60	3.60
50 yr PWLB	5.10	5.10	5.00	4.90	4.60	4.30	4.00	3.80	3.60	3.50	3.40	3.40	3.40

Link Group Interest Rate View		27.03.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50	2.50
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60	2.60
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.20	3.10
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.30	3.20
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.50	3.40
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.20	3.10

LIBOR and LIBID rates ceased at the end of 2021. In a continuation of our previous forecasts, our money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

Link's forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

5. Summary WNC Treasury Portfolio Position

5.1 The highlight for the treasury portfolio position for the period to July 2023 is the council is forecasting a net borrowing position of £357m.

Table 1

West Northamptonshire Council 2023-24				
TREASURY PORTFOLIO 23-24				
	Period to date		Forecast out-turn	
	31-Jul-23		31-Mar-24	
Treasury investments	£000	%	£000	%
Total managed in house	128,295	94%	119,949	93%
Total managed externally	8,545	6%	8,545	7%
Total treasury investments	136,840	100%	128,494	100%
Third party loans	36,841		36,179	
Treasury external borrowing				
PWLB	454,082	86%	447,842	86%
Market, LOBO & other loans	75,602	14%	73,980	14%
Total external borrowing	529,684	100%	521,821	100%
Net treasury investments / (borrowing)	(356,003)		(357,148)	

5.2 The council has made £0.774m of loan repayments up until the reporting period to date of the year. The details are below:

- Partial principal repayment of just over £0.716m on PWLB loans.
- Full repayment of £0.058m on Growing Places Fund loan back in June 2023.

5.3 The forecast position on total external borrowing is £521.8m by the end of the financial year the council does not anticipate any further borrowing for the rest of the year.

6. Borrowing

- 6.1 The need for further borrowing will be reviewed in line with the capital programme delivery schedule, but as highlighted above we don't anticipate any new requirement to take out any loans. Table 2 below sets out the maturity profile of the Council's borrowing portfolio at the end of Period 4 of £529.6m

Table 3

Term Remaining	Borrowing		Limits
	£m	%	%
Under 12 months	8.6	2%	80%
1-2 years	16.4	3%	50%
2-5 years	34.1	6%	50%
5-10 years	5.0	1%	50%
10-20 years	19.4	4%	100%
20-30 years	70.6	13%	100%
30-40 years	218.5	41%	100%
40-50 years	137.0	26%	100%
Over 50 years	20.0	4%	100%
TOTAL	529.6	100%	

7. Borrowing Restructuring

- 7.1 Rescheduling opportunities have been limited in the current economic climate. No debt rescheduling has therefore been undertaken in the current financial year. Officers continue to monitor the position regularly.

8. Investments

- 8.1 The Treasury Management Strategy Statement (TMSS) for 2023-24, which includes the Annual Investment Strategy, was approved by the Council on 22 February 2023. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

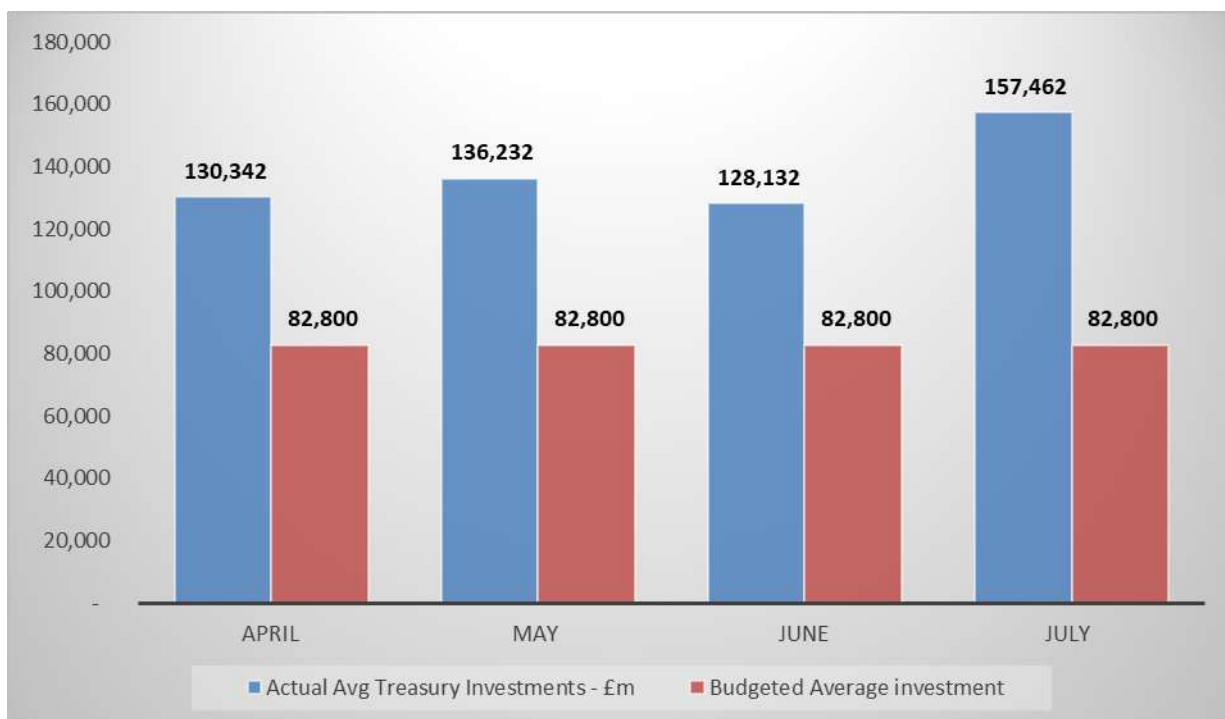
- Security of capital
- Liquidity
- Yield

- 8.2 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short-term to cover cash flow

needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

8.3 The average level of funds available for investment purposes during this period to July 2023 was £138m as shown in the table below. These funds were available on a temporary basis, and the level of funds available was dependent on the timing of payments, receipt of grants and other income. At the end of the period the Council held £38m of liquid cash balances and £100m of short terms investments expected to mature within the financial year.

	April	May	June	July	For the period to date
Average treasury investments - £m	130,342	136,232	128,132	157,462	138,186



9. Investment performance year to date as of 31st July 2023

9.1 Below is SONIA (Sterling Overnight Index Averages) indicators based on a backward look showing the performance of the market when investments were made in the past.

FINANCIAL YEAR TO QUARTER 31/7/2023 (SONIA - Backward Looking)						
	Bank Rate	SONIA	1 month	3 months	6 months	12 months
Bank Rate	4.25%	4.37%	4.27%	4.11%	3.74%	2.7%
Councils Performance			5.11%	4.44%	n/a	n/a
(Under)/Outperforming SONIA			0.84%	0.33%		

9.2 As illustrated above, the Council outperformed the benchmark by thirty-three basis point for the reporting period. The Council's budgeted investment return for 2023-24 assumed an average of 3.5% return based on the timing of placed and future short-term investment following budgets preparations, the Council has outperformed the budget assumption to date. The improved return is reflected in the amount interest receivable in the section 14.2 below.

10. Treasury Management budget

10.1 Outlined below is the Treasury budget performance for the period to July 2023. The net costs have varied significantly to budget as shown in the forecast out-turn with an improvement of £3.3m.

Table 3

Treasury revenue budget	TMSS Budget Approved	Forecast -out-turn	Variance
	£'m	£'m	£'m
Net financing costs -	14.27	14.27	0.00
Interest receivable on investments	(2.80)	(6.10)	(3.30)
Total	11.47	8.17	(3.30)

10.2 The key explanation for variance to the budgets are:

- **Interest receivable on investments** – we are expecting a better yield performance of £3.3m due to increased interest rates and more liquid cash being available for investment in comparison to the budget assumptions highlighted in paragraph 13 above.

11. Approved Limits

11.1 Officers can confirm that the none of the approved limits within the Annual Investment Strategy were breached during the period ended 31st July 2023.

12. Compliance with Treasury & Prudential limits

12.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During this period ending 31st July 2023, the Council has operated within

the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2023-24.

12.1.1 The Director of Finance reports that there are no difficulties expected for the current or future years in complying with these indicators.

12.1.2 All treasury management operations have been conducted in full compliance with the Council's Treasury Management Practices.

Treasury and Prudential Indicators

Prudential Indicator	2023-24 Indicator	2023-24 - Period 4
Authorised limit for external debt <i>[Excluding PFI and Finance Lease Liabilities]</i>	----- £850.0m -----	
Operational boundary for external debt <i>[Excluding PFI and Finance Lease Liabilities]</i>	----- £800.0m -----	
Capital Financing Requirement (CFR) <i>[Excluding PFI and Finance Lease Liabilities]</i>	£935m	TBC
Ratio of financing costs to net revenue streams	1.6%	TBC
Principal sums invested > 365 days <i>[Excluding third party loans]</i>	£20m	£nil
Maturity structure of borrowing limits: -		
Under 12 months	Max. 80% Min. 0%	2%
12 months to 2 years	Max. 50% Min. 0%	3%
2 years to 5 years	Max. 50% Min. 0%	6%
5 years to 10 years	Max. 50% Min. 0%	1%
10 years and above	Max. 100% Min. 0%	88%

Approved countries for investments as of 31st July 2023

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- France
- Abu Dhabi (UAE)

AA-

- Belgium
- Qatar
- U.K.